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SUBJECT: PANAMANIAN OFFICIALS OPTIMISTIC THAT CANAL  
EXPANSION WILL LIFT ALL BOATS, BOOST POLITICAL PROSPECTS,  
DEFINE LEGACY AS PATRIA NUEVA ENTERS SECOND YEAR IN OFFICE  
-- AN ANALYSIS (PART 2)

REF: A. PANAMA 1729

[1](#)B. PANAMA 2141

Classified By: CDA LUIS ARREAGA FOR REASONS 1.4 (B) AND (D).

[1](#)1. (SBU) This message is the second in a three-part series on views of the Torrijos administration's performance as it passes its September 1, 2005 first anniversary. Part One (Reftel A) evaluated the performance of the Panamanian government (GOP), citing the views of critics outside and inside the GOP. Part Two elaborates on the GOP's view of itself; analyzes reasons for its domestic failures; and examines the interplay between the GOP's domestic performance and U.S.-Panamanian bilateral issues. It also reviews how U.S. interests, especially security and the Canal, may be affected by GOP initiatives and political prospects, in the context of the November 6-7 visit to Panama of President Bush. Part Three will examine the Torrijos administration's progress in achieving its economic priorities.

#### SUMMARY AND INTRODUCTION

[1](#)2. (C) As it tries to find its political moorings following what was widely seen as political ineptitude during its first year, the Panamanian government (GOP) of Martin Torrijos is actively leveraging its relations with the United States. It is counting on President Bush's November 6-7 visit and a November 7 bilateral statement, with possible mention of "secure trade and transportation" and a Free Trade Agreement (FTA), to help its domestic political prospects. Given the GOP's self-perceived vulnerabilities, the key for the USG will be to find a formulation of shared interests that boosts the GOP without highlighting its failures, such as its failure to conclude the FTA.

[1](#)3. (C) The GOP is friendly to U.S. interests (and the population is over-90% pro-American) but its aura of weakness encourages its domestic opponents. That weakness, combined with the "Chavez factor" -- the constant spectacle of Hugo Chavez trying to poke his finger in Uncle Sam's eye -- in turn encourages local extremists. Given the GOP's weakened domestic position and the president's under-50%-approval ratings, hopes to cultivate Torrijos as a foil to Hugo Chavez in an increasingly unstable region probably are far-fetched. Torrijos does not have a secure enough domestic platform -- or fire in the belly -- to be a high-profile democratic crusader in the "anti-Chavez" mold. On the contrary, the GOP is cautiously courting Chavez to buy oil products on credit. In general, Torrijos wants good relations with Chavez and Fidel Castro, to allay its fears of Venezuelan and Cuban meddling in local politics.

[1](#)4. (C) As the Torrijos government emphasizes Panama's traditional reliance on its geographical endowments as an epicenter of world trade and its relations with the U.S., its lack of direction domestically is a major impediment to foreign and domestic policy objectives. Torrijos probably can recoup his internal position by building on the momentum he gains from President Bush's November 6-7 visit, but only if he moves quickly to wrap up CSS-Social Security reform and finalize a U.S.-Panama FTA, which are intended to improve the government's finances and its attractiveness to investors. Torrijos is betting his government's political prospects and his legacy on expanding the Canal -- and on winning a 2006 or 2007 referendum to expand it -- confident that the massive infrastructure project will set off a long economic boom.  
End Summary and Introduction.

#### The Torrijos Dilemma

[1](#)5. (C) Operationally, the Torrijos government often seems to be at sea. The government's poor decision-making apparatus and its public relations deficit partly are to blame, as is Torrijos's "government of rookies," where his close friends hold a lot of the important jobs. With friendship playing so large a role, Torrijos hesitates to fire or criticize them, as became clear in September's half-hearted cabinet reshuffle. For example, replacing his school chum Javier

Acha with Leonel Solis at Panama's intelligence-gathering Consejo was arguably the biggest change Torrijos made, with the result that Acha and Torrijos were not on speaking terms for some time, and their friendship is strained.

Foreign Minister Lewis: Gravitas  
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16. (C) (Comment: Son of a respected former foreign minister and ambassador to Washington, whose well-connected family once hosted the Shah of Iran on Contadora Island, Vice president/Foreign Minister Samuel Lewis is a businessman with politics in his blood. He is close to every major decision that the Torrijos government makes. For lack of a better word, Lewis's broad judgment and perspective lends gravitas to the administration, although he is better versed on foreign affairs than internal politics. A 2009 presidential hopeful, Lewis is not politically disinterested. That may be an advantage because his political fate is closely tied to Torrijos, thus he may give the best advice the president gets. Political consultant Jose Blandon, Sr. told POL Counselor he agrees that Lewis probably is Martin Torrijos's best advisor but he wonders, as the president's close personal friend, whether Lewis "pulls his punches" to avoid offending Martin and is more eager to preserve his friendship than engage in "hard talk". Others suspect that Lewis's business interests at times may influence GOP decisionmaking. End comment.)

No Chief Of Staff  
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17. (C) Minister of the Presidency Ubaldo Real, a political neophyte, is a leading Friend of Martin. Real's excellent access and personal relations with Torrijos combined with his ministerial position mean he is uniquely placed to be the president's chief of staff, to combine, as one wag put it, the roles of the president's alter-ego and cabron (heavy). But Real has chosen not to do it and the president has not insisted. Instead, Real concentrates on a myriad of special projects. Without a chief of staff Torrijos has no orderly, dependable method of receiving information or making decisions. The decision-making "process," then, relies on the haphazard order that issues reach the president's desk (or not), how they happen to be presented, and on his mood. That means no one, including Torrijos himself, is pushing the president's agenda in an orderly, coherent way. And no one is pushing the president to make decisions. (Note: Lucho Melo, Torrijos's personal assistant, is not a chief of staff. End note.) In effect, the GOP has no self-regulating mechanism, no rudder.

Security To The Fore  
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18. (C) In contrast to its lethargy and indirection in its internal political strategy, the GOP has been almost hyperactive on security policy. The GOP's "Panama Secure Trade & Transportation Initiative" (PST&TI), which pitches improvements to Panama's security and border preparedness and closer Panama-U.S. security cooperation and enhanced security-related information sharing and training is one example. (Note: A DAS-level inter-agency USG team came to Panama to discuss the proposal in late September. End note.) Further, the GOP wants to split off the so-called "paramilitary" border units of the Panamanian National Police (PNP) and place them in a new PNP "border force." The National Air (SAN) and National Maritime (SMN) Services also are to be merged into a new "Coast Guard." All are interesting proposals but resources to make the new systems "go" are lacking. Most of the credit for these initiatives belongs to Minister of Government and Justice Hector Aleman, although whether he will get the money he needs to pay for new patrol boats, aircraft, training, and maintenance is far from clear. If he does not, then a combined SAN-SMN will make little difference.

Regional Role?  
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19. (C) Minister Aleman wants Panama to play a bigger role regionally and spur regional security coordination as Panama chairs SICA (CentAm Integration System) for the next 12 months. Meanwhile, the Embassy's access to high-level Panamanian officials, including President Torrijos, remains unmatched, while the level of cooperation between Panamanian and U.S. drug enforcement, immigration, and security officials, in many ways is even better under Torrijos than it was under President Moscoso. But given the GOP's sensitivity to criticism from local anti-military opinion (the GOP is routinely accused of planning to re-militarize Panama), the GOP seems to have two minds about how much attention to draw to its forward thinking on security. That, combined with lack of progress on the bilateral FTA, could make it awkward for Presidents Bush and Torrijos to say much of substance on security or trade on November 7, frustrating important U.S.

objectives.

#### Minister of Presidency Real: Intentions vs. Performance

10. (C) Nowhere are the Torrijos administration's contradictions between good intentions and performance, and its confusion of strategy with wishful thinking more apparent than in a discussion with Ubaldino Real. In his final meeting with Ambassador Watt late June, following weeks of noisy, sometimes violent demonstrations protesting the GOP's CSS-reform law, Real complained that the government faced a situation where it had no allies. What was happening in the streets was contrary to all the advice and predictions that the GOP had received, he said, but "We still know we're doing the right thing." "Don't explain this to me," the Ambassador said bluntly. "Explain it to the Panamanian people. You've got to get your president out there," she rejoined.

#### Public Relations Deficit

11. (C) Real acknowledged the GOP's long-standing public relations problem, which begins at the top, with President Torrijos. In reply to implorings for Torrijos to get out the government's message, Real admitted, Torrijos "doesn't communicate well" and comes across as "wooden." Telling Real that the PRD's possible political fragmentation is "the biggest problem you've got," the Ambassador reminded him that Torrijos's political opponents, especially former president Ernesto Perez Balladares, is "trying to peel off your people."

#### Poverty: The Single Biggest Problem

12. (C) Poverty is the biggest single threat to Panama's democracy, Real said at the June meeting, a point he also emphasized with Ambassador Eaton during a mid-September courtesy call. In June Real said that he is more worried about the poorest 40-plus-percent of the population who are not covered by Social Security than those who are, adding that he is "amazed we don't have more unrest with our levels of poverty." Real did not explain how the government plans to reduce poverty levels. In his September meeting with Ambassador Eaton, Real implied that Canal expansion would provide a way out.

#### Economic Boom Is Coming

13. (C) The proposed Panama Canal expansion -- a massive, multi-billion-dollar infrastructure project, billed as the biggest in Latin America -- will set off a decades-long economic boom, Real claimed. The GOP will hold a referendum on Canal widening in September 2006, Real told Ambassador Eaton. Although polls show that 60% of the public will vote "yes," Real quickly added that the government must approach the issue (and the date for the vote) "carefully and calmly." Real agreed with Ambassador Eaton's suggestion that a visit by President Bush to the Canal during his November visit could help the GOP's referendum prospects. (Comment: The GOP's inability thus far to resolve the CSS issue and other internal problems has led it to continually postpone the date for the Canal referendum. Also, the Panama Canal Authority (ACP) has been reluctant so far to reveal its plans and financing ideas. In a separate late-June meeting with Ambassador Watt, Real had said the Canal referendum would be held in March 2006. End comment.) Real also said that "99.9%" of Panamanians favor an FTA with the United States (a wishful figure, at best) and vowed that the GOP would not hold it up "just for a small group."

#### "We're Not Bolivia"

14. (C) One of the GOP's pillars and strongest defenders, Vice President/Foreign Minister Samuel Lewis often insists, as does Real, that he is "very optimistic" about the GOP's political prospects. In a July meeting with POL Counselor, Lewis emphasized that he is "absolutely positive" that the GOP will fulfill its agenda. President Torrijos is politically "savvy" and knows what he wants to do, Lewis said. "Panama is not Bolivia," he said, adding that Panama is not unstable. But Lewis also recited a long list of GOP mistakes, including several failures to consult widely and well in advance (on the still-pending fiscal reform and CSS-social security), ministerial incompetence in allaying discontent among teachers and health workers, broken promises from professional groups, costly missteps in timing (that led to the midnight passage of the CSS bill), failures in judgment in dealing with the leftist opposition, all of which damaged the government's credibility and led to a mass rejection of the CSS bill, which was passed at midnight on June 1. The GOP's ill-considered actions forced it to lower its expectations on what it could accomplish on CSS reform, Lewis acknowledged, who also said that fixing CSS is the key

to the GOP's financial well being.

#### The Leftist Agenda

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15. (C) Leftist forces -- specifically the SUNTRACS construction union bosses Genaro Lopez and Saul Mendez and ally, former CSS director Juan Jovane (fired in 2003) -- have quietly prepared for years to use the CSS issue as a battleground to mobilize wide support, Lewis said. With the connivance of former president Moscoso, Lewis claimed, Jovane padded the CSS payroll with thousands of former SUNTRACS workers or spouses. (Note: According to Lewis, Moscoso's quid pro quo was that Jovane would add one of her nominees to the CSS payroll for every two of his. End note.) At the same time, Jovane accelerated the CSS crisis by pushing it closer to bankruptcy. The leftist "rejectionists," Lewis continued, want to make changes to the state and overthrow Panama's democratic political system. No other issue -- Canal expansion, Free Trade Agreement, fiscal reform -- is as useful to them. Lewis believes the GOP now has the leftists in a box, as it may be on the verge of striking separate deals with teacher and health practitioners -- whose interests diverge sharply from SUNTRACS -- depriving the radicals of their mass support. One of the GOP's best achievements during the May 2005 anti-CSS FRENADESSO strike was police restraint, Lewis said. "We created no martyrs."

#### "A Leaf On A Pond"

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16. (C) GOP Secretary of Goals and Planning Ebrahim Asvat described Panama for POL Counselor as a country like a leaf on the surface of a pond being blown by the wind, due to lack of far-sighted leadership. Things take much too long to get done, Asvat complained. About 80% of what a president needs to do is communicate, he added. The political process depends on the president making decisions, formulating strategy, and identifying political allies, but by moving slowly, the government has lost control over time, he griped. Consultant Blandon told POL Counselor on October 20 that the government usually does not explain things, and when it does explain, it explains badly. "Who tells Martin the truth?" he asked. (Comment: A consistent low-key critic of Torrijos, Asvat is a member of the Popular Party, a PRD-ally, and briefly served as Panamanian National Police Director in the 1989-1994 Endara government. Formerly the editor of the tabloid El Siglo, Asvat retains the strong opinions of a newspaper editorialist. In the Torrijos government, Asvat does not hold cabinet minister rank. he is more like a presidential advisor. End comment.)

#### Torrijos's PR Problem

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17. (C) The GOP's press coordinator is Jorge Sanchez, rumored to be on the way out since November 2004. Sanchez (who holds U.S., Spanish, and Panamanian passports) has no public relations experience. His main qualification for PR chief is that he is childhood friend of Martin Torrijos. As a local businessman told POL Counselor, a competent PR chief, could have avoided the week-long public relations gaffe, during which Torrijos could not decide whether to attend the April 2005 funeral of Pope John Paul II. Torrijos finally went to Rome, but not before many ordinary Panamanians were saying, "Panama is a Catholic country and our president is not going to the Pope's funeral?" A competent PR chief or chief of staff also could have corrected Torrijos when he is reported to have said, "I don't care if fiscal reform costs me 20 points in my popularity" or could have questioned his appointment of Sandra Noriega, Manuel Noriega's daughter, as consul in Santo Domingo.

#### Comment

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18. (C) Explicit mention of "security cooperation" in the joint bilateral statement on November 7 would send a strong signal to regional troublemakers (read Chavez and Castro) by seeming to place a "virtual" U.S. security umbrella over Panama. Late indications are that the GOP is nervous about a joint statement on security (despite its forward-leaning activity on security matters) due to its local security sensitivities, which are exacerbated by not having anything to "balance" mention of security, such as sufficient progress on the FTA. Most local critics fault Panama, not the United States, for failure to conclude a timely agreement. Torrijos an unlikely candidate to play an "anti-Chavez" regional democratic heavyweight role. Worse, the GOP at this moment is fighting hard to keep local focus on President Bush's visit from shifting to a "negative" agenda, such as the still unresolved issue (from Panama's point of view) of unexploded ordnance (UXO) on former U.S. Canal Zone firing ranges or failure to conclude the FTA.

19. (C) GOP officials are clearly torn over the coming

referendum to widen the Canal, which they say will preserve the Canal (whose biggest user is the United States) as a major international trade transit point. They would like to think of the inherently chancy referendum as "too big to fail." On the other hand, the GOP's hallmark procrastination (and worry over losing the vote) repeatedly has pushed back the referendum until mid-2006 or possibly 2007, when it will become prey to as-yet-unanticipated storm and stress. One looming stress is the PRD's 2007 convention to choose a new secretary general. Former president Ernesto Perez Balladares, who is hostile to Torrijos, is openly angling for the job (and to become president again). The convention could distract the GOP's already ADD-afflicted concentration for months.

120. (C) Torrijos is doing little to address Panama's primary structural issue -- its 40-plus-percent poverty rate. What's needed is investment-driven job creation (which would imply attacking corruption and costly education and social outlays, as discussed in Reftel B), which Canal expansion will not resolve by itself. Nor does Torrijos seem likely to look for legal means to rid the Supreme Court of several of its most egregiously corrupt Justices (such as encouraging them to resign after starting impeachment procedures), or to prosecute corrupt former officials. That means he has not yet convinced ordinary Panamanians that the people running the country are not crooks. (A recent poll showed 90% of Panamanians believe changes are needed at the Supreme Court.)

121. (C) While the Torrijos government may ultimately prove to be mediocre, especially by the high standards that it set for itself coming into office, a government that does no harm is not the worst possible outcome for Panama. What could be disappointing for the United States is that Panama -- as one of only several, relatively prosperous, pro-U.S. Latin American democracies -- may not be ready to play a stronger and more prominent regional role to counter Chavista destabilization.

Arreaga